



STATE AND LOCAL AUDIT PROTOCOLS

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STATE AUDITOR
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ABOUT THE AUDITOR'S OFFICE

State Auditor's Mission

The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the efficient and effective use of public resources.

State Auditor's Philosophy

Public service is an honor. We take pride in the services we perform for the governments and citizens of Washington. We work with the highest standards of integrity, independence and professionalism. We value a working environment free of bias and characterized by efficiency, open communication, teamwork, mutual respect and good judgment.

Independence

The State Auditor's Office conducts financial, accountability and performance audits in accordance with Generally Accepted Government Auditing Standards (GAGAS) – also known as the Yellow Book – issued by the U.S. Government Accountability Office.

Yellow Book chapter 3.03 states, "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external and organizational impairments to independence."

Statutory authority references

Auditor of Public Accounts
State Constitution, Article 3 Section 20

State Audit
RCW 43.09.290 – 43.09.420
RCW 43.88.160(6)

Local Audit
RCW 43.09.200 – 43.09.282

Whistleblower
RCW Chapter 42.40

Local Government Uniform
System of Accounting,
Technical Assistance and Training
RCW 43.09.200

School District Accounting Manual
RCW 28A.300.060

Local Government
Comparative Statistics
RCW 43.09.230

Performance Audit
RCW 43.09.470 – 43.09.475

FINANCIAL AUDITS

The Auditor's Office annually audits Washington state's financial statements and the Office of Financial Management issues the report, called a Comprehensive Annual Financial Report.

In addition, the Office conducts financial statement audits of local governments. The Auditor's Office also may provide financial statement audits to individual agencies that are required to prepare stand-alone financial statements by law or for other reasons.

The goal of the financial statement audit is to assure that a government entity's financial statements are fairly presented. The auditor provides users with an independent basis for relying upon management's assertions concerning the government's financial position, results of operations and cash flow. Auditors collect evidence needed to attest to the fairness of management's assertions. This can be done by inspection, observation, inquiry and confirmation from third parties.

COMPLIANCE AUDITS

State and local governments also are subject to many legal compliance requirements relating to financial matters contained in the state constitution, Washington Administrative Code, Revised Code of Washington, court cases, bond covenants, contract provisions and other criteria. Compliance audits are performed to obtain reasonable assurance that governments have complied with state and local laws and regulations.

ACCOUNTABILITY AUDITS

The Auditor's Office performs accountability audits of state agencies and local governments. The purpose of

these audits is twofold. First, entities are audited to obtain reasonable assurance that they have adhered to applicable state laws and regulations. Additionally, records are audited to ensure public funds are accounted for and controls are in place to protect public resources from misappropriation and misuse.

The Auditor's Office regularly audits 168 state agencies, boards and commissions ranging from the largest departments, such as the Department of Social and Health Services, to small boards and commissions. Agencies also include all public colleges and universities in Washington. The Office also audits more than 2,000 local governments ranging from the largest counties to the smallest special purpose districts. The audits are performed on a cyclical basis based on risk analyses that consider such issues as size, analytical procedures and prior audit history.

TYPES OF AUDITS

FEDERAL COMPLIANCE AUDITS

State and local governments frequently receive substantial federal financial assistance, often provided by several agencies. "Single audits" are specifically designed to meet the needs of all federal grantor agencies. These audits replaced multiple audits that were historically performed by individual grantors.

The state of Washington and many local governments must obtain a federal single audit when they spend more than \$500,000 in federal financial assistance in a year.

Single audits place special testing and reporting responsibilities upon auditors of federal financial assistance. The auditor must obtain reasonable assurance that governments have complied with laws and regulations that could affect federal assistance program expenditures. The auditor also determines if the federally mandated "Schedule of Expenditures of Federal Awards" prepared by the government's management is fairly presented.

Single audits, like all federal audits, must be performed in accordance with GAGAS. These audits are also subject to the requirements of the Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In addition, federal financial assistance programs also have their own compliance requirements. These audits are designed to provide:

- An opinion on whether the entity complied with laws, regulations and provisions of contracts or grant agreements over federal financial assistance programs.
- A report on whether internal controls are adequate to ensure compliance with federal laws and regulations.
- An opinion on whether the entity's financial statements and schedule of

expenditures of federal awards are fairly presented.

- An opinion on compliance and internal control over financial statement reporting.

The Auditor's Office provides one statewide single audit report on the state of Washington, which is published by the state Office of Financial Management.

Local government single audit reports are issued with their financial audit reports.

PERFORMANCE AUDITS

The State Auditor is responsible for conducting independent, comprehensive performance audits of state and local government entities, agencies, programs and accounts. Performance audits are conducted in accordance with GAGAS.

Initiative 900, approved by voters in 2005, gave the Office the authority to conduct performance audits. It requires each performance audit to include, but not be limited to:

1. Identification of cost savings.
2. Identification of services that can be reduced or eliminated.
3. Identification of programs or services that can be transferred to the private sector.
4. Analysis of gaps or overlaps in programs or services and recommendations to correct them.
5. Feasibility of pooling the entity's information technology systems.
6. Analysis of the roles and functions of the entity and recommendations to change or eliminate roles or functions.
7. Recommendations for statutory or regulatory changes that may be necessary for the entity to properly carry out its functions.
8. Analysis of the entity's performance data, performance measures and self-assessment systems.
9. Identification of best practices.

WHISTLEBLOWER

The State Auditor's Office administers the Whistleblower Act, in which improper governmental action is reported by a state employee. Improper governmental action is defined as any action by an employee undertaken in the performance of the employee's official duties that:

- Is a gross waste of public funds or resources.
- Is in violation of federal or state law or rule, if the violation is not merely technical or of a minimum nature.
- Is of substantial and specific danger to the public health or safety.

For an improper governmental action to be investigated, the assertion must be provided to the auditor within one year after the occurrence of the action.

Any current Washington state employee may report a suspected improper governmental action through the Whistleblower Program. This includes temporary employees, classified and exempt civil service employees and elected officials.

For more information on the Whistleblower program, visit www.sao.wa.gov/whistleblower/index.htm.

FRAUD

The Auditor's Office handles an average of 36 fraud investigations totaling approximately \$700,000 in losses each year. In the past 18 years, the Office has investigated more than 640 frauds totaling more than \$12.5 million in losses.

The Auditor's Special Investigations Manager monitors all fraud cases

throughout the state. In addition, each of the Auditor's 17 audit teams has designated a fraud specialist.

State law requires that all state agencies and local governments immediately notify the State Auditor's Office if they know of or suspect a loss of public resources. The Auditor's Office encourages governments and agencies to develop policies and procedures regarding fraud reporting, including designating an individual who is responsible for informing managers and employees about the reporting requirements and ensuring our Office is promptly notified about losses. The Office also offers training to government entities on how to prevent and report fraud.

For more information about our fraud program, visit www.sao.wa.gov/Fraud/About.htm

LOCAL GOVERNMENT ENTITIES

For local governments, the Office prescribes the Budgeting, Accounting and Reporting Systems (BARS). The Office also compiles and maintains the Local Government Financial Reporting System (LGFRS). For more information, visit www.sao.wa.gov/lgfrs.

Contracted audits

The Auditor's Office sometimes contracts out audit work. Our Office oversees contractors' work for quality assurance and compliance with Government Auditing Standards (Yellow Book) and our own protocols.

Communication between the Auditor's Office and entities makes the audit process smoother and more efficient for both parties.

Executive Communication

The State Auditor's Office is committed to maintaining positive relationships and open communication with all entities we audit. Communication may take several forms, including meetings between the Washington State Auditor or designees and the entity executive or designees to discuss items of concern or public interest.

State inquiries may be directed to the Director of State Audits Jim Brittain at (360) 902-0372. Local inquiries may be directed to Director of Local Government Audits Chuck Pfeil (360) 902-0366.

Audit Liaison

When audit work begins at an entity, the Auditor's Office will designate a primary point of contact to be available throughout the audit to respond to the entity's requests for information on the status of work or concerns about the work's scope or approach. In turn, the Auditor's Office expects each entity to designate a point of contact who has appropriate knowledge about the entity's relevant programs and is able to facilitate timely completion of the audit. In addition to other requests, the entity-designated audit liaison will facilitate meetings such as entrance and exit conferences, identify and ensure that the Auditor's Office meets with the appropriate entity representatives, resolve issues and coordinate entity responses to draft audit recommendations.

The Auditor's Office will establish with the audit liaison or entity management a schedule to discuss audit status and other relevant issues identified throughout the audit, including changes in the scope or objectives.

What Agencies Can Expect from SAO

- Clear explanation of the audit's scope and objectives.
- Open and frequent communication throughout the audit.
- A chance to respond to the potential findings and recommendations and to have that response incorporated into the audit report.
- The Auditor's Office will treat confidential information with the same care that is required of the audited entity.
- An audit conducted in accordance with federally mandated Government Auditing Standards.
- A thorough and understandable audit report.

What SAO Expects from Agencies

- Timely response to meeting requests.
- Timely and unhindered access to data and records.
- Raising any questions or concerns about audit issues before findings and recommendations are developed.
- Implementing recommendations to improve accountability and open government for the citizens of Washington.

Audit Planning

The first stage of the audit consists of assessing risk and planning procedures that will address that risk. This stage occurs prior to the entrance conference.

To complete the risk assessment and the plan, auditors may need to interview or survey entity staff members to gain basic information about the entity, program or system that is being audited. In addition, auditors may need the entity's assistance in accessing financial or other information for preliminary analytical procedures.

The entity's audit liaison will assist the auditor in contacting the appropriate entity personnel.

Prior to beginning on-site fieldwork, the Auditor's Office will notify the entity's liaison of the planned audit. At the liaison's request, other parties within the entity will be notified. When the work involves more than one entity, such as a performance audit with statewide implications, the Auditor's Office will notify the individual entities of the intent to start such work. Notification will include:

- Type of audit.
- Program, fund or activity being audited.
- Estimated start date.
- Entrance conference target date.
- Audit team or contractor staff.
- Audit liaison with relevant contact information.
- Preliminary audit objectives and/or risk factors

Entrance Conference

Entrance conferences are the first in a series of opportunities for communication between auditors, state and local

elected officials and the audited entity's management.

The Auditor's Office liaison will coordinate an entrance conference with the entity's audit liaison. The entity is expected to provide appropriate personnel or designees to attend the entrance in a timely fashion after the request by the Auditor's Office.

At the entity's expressed preference, the Auditor's Office will schedule all formal entrance conferences with the Audit Committee Chair.

At a minimum, auditors will address the following items during entrance conferences:

- Identification of the audit manager and other staff, including any contractors working on the audit.
- Auditor and contracted staff responsibilities.
- Key objectives and scope of the audit.
- Nature, timing and extent of planned field work.
- Procedures for keeping entity management informed of the audit's progress, including regular updates, changes in the scope or objectives, problems, potential findings and/or recommendations.
- Information requests that can be readily identified, such as data access or access to individuals.
- Expected timeline of the audit.
- The type of audit report to be issued and the level of assurance to be provided.
- Any areas or problems that concern the entity's management.
- Estimated audit costs (does not apply to performance audits).

AUDIT PROCESS

Audit Progress Meeting / Pre-Exit Conference

Progress meetings and pre-exit conferences will be scheduled as jointly determined by the State Auditor's Office and the audited entity. Information that will be shared at such meetings may include status reports of the audit process, potential findings or recommendations and preliminary evidence.

If the audited entity has any concerns with any information presented, it must provide such concerns and any evidence in a timely fashion.

The intent of open communication between the Auditor's Office and the audited entity is to ensure that the audited entity is fully aware of all significant matters before the report is drafted.

Exit Conference

Exit conferences are routinely scheduled between the Auditor's Office, the audited entity management and state and local elected officials.

Exit conferences are held before the Auditor's Office issues the final audit report. Items that are not significant enough to report as findings but will provide stronger internal controls or promote operational efficiency will instead be communicated in a management letter or as an exit item.

The Auditor's Office will coordinate the exit conference with the entity's audit liaison. The entity is expected to provide appropriate personnel or designees to attend the exit in a timely fashion after requested by the Auditor's Office.

At a minimum, the following items are addressed at the exit conference:

- The audit objectives, scope and methodology.
- Acknowledgement of areas where significant improvements have been made by the entity as well as areas audited with no concerns noted.
- Recognition of best practices, if identified.
- Findings, management letters and exit items.
- Conclusions and recommendations
- Audit reports to be issued and the report process, including the timeline for entity response.
- Audit costs, if applicable.

If the audited entity declines the formal exit conference, the reasons for not holding the conference will be explained in the audit documentation. The exit conference information will be communicated to the audited entity in writing in place of an exit conference.

Final Notification of Audit Report

The Auditor's Office will give the audited entity an opportunity to review the draft audit report prior to issuing the final report. The audited entity generally is expected to provide a formal response to findings, conclusions or recommendations in seven to 30 business days. The time frame will be determined by the Audit Manager who is overseeing the audit.

The Auditor's Office expects an entity to provide a single position of reasonable length detailing concurrence or non-concurrence with audit findings, conclusions or recommendations. When responses are lengthy, the Auditor's Office may elect to print excerpts of the

response and refer readers elsewhere for the complete text. The Auditor's Office prefers that entity comments be in an electronic format.

For performance audits, responses will include the entity's plan for implementing recommendations, a contact person and an estimated date of completion for the action plan.

If an audited entity does not agree with the audit findings and recommendations or believes action is not required, then the response must include specific reasons why no action will be taken.

Performance audit reports may also contain the views of officials who are responsible for the audited entity and those who are responsible for implementing audit recommendations. The Auditor's Office encourages audited entities to submit a unified response from all responsible officials.

After the entity's comments have been incorporated into the audit report or the deadline for entity response has passed, the Auditor's Office will notify the audit liaison or the entity executive of the report's release date. The Auditor's Office will notify the entity at least three days before issuing the performance audit report or any other audit report that has findings.

Audit Reports

The State Auditor's Office provides each audited entity with a copy of the audit report. Performance audit reports are distributed to the audited entity, the legislative body, the Governor's Office (for audits of state entities), the governing body (for local government

entities) and other interested parties.

All audit reports are available at the State Auditor's Web site, **www.sao.wa.gov**.

To request a copy of an audit report, call (360) 902-0370. Please have available the name of the entity and the audit period. The first printed copy is provided at no charge. Additional copies will be made for 10 cents per page.

Audit Resolution State financial, single and accountability audits

The Office of Financial Management is responsible for follow-up on audits of state agencies to ensure that corrective action is taken within six months of the issue of an audit finding. Agencies are expected to work closely with OFM to resolve findings. OFM annually reports the status of state agency audit resolution for the preceding year to the appropriate Legislative committees, the State Auditor and the Attorney General by December 31.

The Auditor's Office will follow up during entity audits to determine if the prior audit's recommendations have been addressed or resolved. If issues have not been resolved, the Office will use its discretion to determine the level of reporting.

Performance audits

- Initiative 900 requires that the state Legislature or corresponding local legislative body hold at least one public hearing within 30 days of the issue of a performance audit report to consider the findings of the audit and to receive comments from the public.

AUDIT PROCESS

- The audited entity is responsible for follow-up and corrective action on all performance audit findings and recommendations.
- The Governor may require progress reports from any audited entity under her authority until resolution has occurred.
- Entities under the authority of an elected official other than the Governor may be required to provide progress reports until resolution has occurred. Additionally, an annual report will be submitted by the corresponding legislative body detailing the status of the resolution of the Auditor's recommendations.
- The Joint Legislative Audit Review Committee will annually issue a

report by July 1 detailing the status of the legislative follow up of the State Auditor's recommendations for state entities. For local government entities, the responsibility lies with the corresponding legislative body. These reports will include justification for recommendations not followed and details of corrective action.

- The Auditor's Office may request status reports from entities on specific audits or findings. Reports should be provided within 15 business days.

Local government audits

As a normal course of action, the Auditor's Office will follow up on previous findings during the next normally scheduled audit.

DEFINITIONS FROM THE YELLOW BOOK

Criteria

Criteria are the standards and best practices against which data is compared.

Examples of criteria include:

- laws, regulations, policies, standards
- best practices
- prior periods' performance (performance audits)
- performance of similar entities in the public or private sectors (performance audits)

Scope

Scope defines the parameters of the audit, such as time period reviewed or the locations where field work will take place. Scope is tied to the audit objectives.

Objectives

All audits begin with objectives, which state the goals for the audit. The objectives for financial, compliance, accountability and performance audits may differ.

For example, the primary function of financial audits is to determine whether financial records and statements comply with generally accepted accounting principles. Performance audit objectives can assess effectiveness, economy, efficiency, internal control and compliance with legal and other requirements.

More information about the Yellow Book is available at www.gao.gov/govaud/ybk01.htm.

Access to Records

In order to carry out the responsibilities of the State Auditor, state law requires unhindered and timely access to all entity records, whether in a paper, film or electronic format. The State Auditor should not be charged a fee by an entity to obtain records.

Timely and unhindered response to requests for information makes the audit process more streamlined and cost effective, which benefits the audited entity, the Auditor's Office and the public.

The State Auditor's Office has the authority by law to subpoena records that are needed to conduct an audit. However, this is the last, and most costly, option that will be pursued by the Office.

Confidentiality

The State Auditor's Office and any of its contractors give confidential information the same level of protection that is required of the agencies being audited.

Employees of the State Auditor's Office are required to maintain confidentiality regarding personal data in accordance with the Governor's Executive Order 00-03, unless that information is subject to disclosure under the state Open Public Records Act, Chapter 42.56 RCW. Exemptions to disclosure may be found in the Act and in other sections of state law.

The audited entity may request the Auditor's Office to enter into data sharing or confidentiality agreements when audits involve sensitive data or issues. Such requests will be considered by the Office on a case-by-case basis.

When responding to a public records request after an audit report is issued, audit documentation will be thoroughly reviewed to determine if it contains information exempt from disclosure.

All items exempt from disclosure will be redacted prior to their release. Any applicable exemption will be specifically identified. Appeals of denials of public records may be made to the state Attorney General's Office.

Issue Resolution

During the course of the audit, issues may arise that require a discussion between the audited entity and the Auditor's Office. Examples could include questions about adherence to the Government Auditing Standards, concerns about evidence or difficulties with the timeliness of responding to a request for documentation.

Any such questions or concerns should be resolved as soon as they are identified, and, whenever possible, before the auditor has formulated findings, conclusions and/or recommendations.

The Auditor's Office encourages issue resolution to occur between the auditor and the entity liaison. If that is not possible, the issue should proceed to the executive level between the entity and the Auditor's Office. If resolution at that level is not successful for audits of state entities, the Governor's Office will be asked to encourage cooperation from the entity. If the issue involves a local entity, that entity's legislative body, such as a city or county council, will be asked to encourage cooperation.

LEGISLATIVE, MEDIA & PUBLIC INQUIRIES

When contacted by state legislators regarding an audit in progress, we will communicate the scope and objectives of that work.

When we are requested to testify before the Legislature or a legislative committee on an audit in progress, we will notify the entity we are auditing. If requested, we will verbally share what we expect to provide as testimony to the entity for discussion. However, due to the nature of legislative hearings, we may be required to respond to questions not previously discussed with the entity.

Media contacts are handled by the State Auditor's communications manager or a member of the communications team. In general, audit reports are issued to newspapers and television and radio stations by request and based on previous interest or likely interest.

Public records requests should be directed to Public Records Officer Mary Leider at leiderm@sao.wa.gov or by phone at (360) 725-5617.

Audit reports issued since 1999 and whistleblower investigation reports issued since 1997 are available free of charge on our Web site, **www.sao.wa.gov**.

We also accept requests via e-mail at AuditRequests@sao.wa.gov. Requests should include the name of the audited entity, the audit period, the name, address and phone number of the person requesting the report. There is no charge for the first copy. Additional copies cost 10 cents per page.

The state of Washington Comprehensive Annual Financial Report (CAFR) includes the Auditor's report on financial statements. It is distributed by OFM and is available at **www.ofm.wa.gov/cafr/default.asp**.

The Washington Single Audit Report is the federal audit of the state as a whole, including state universities, community colleges and technical colleges. It is available at **www.ofm.wa.gov/singleaudit/default.asp**.



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